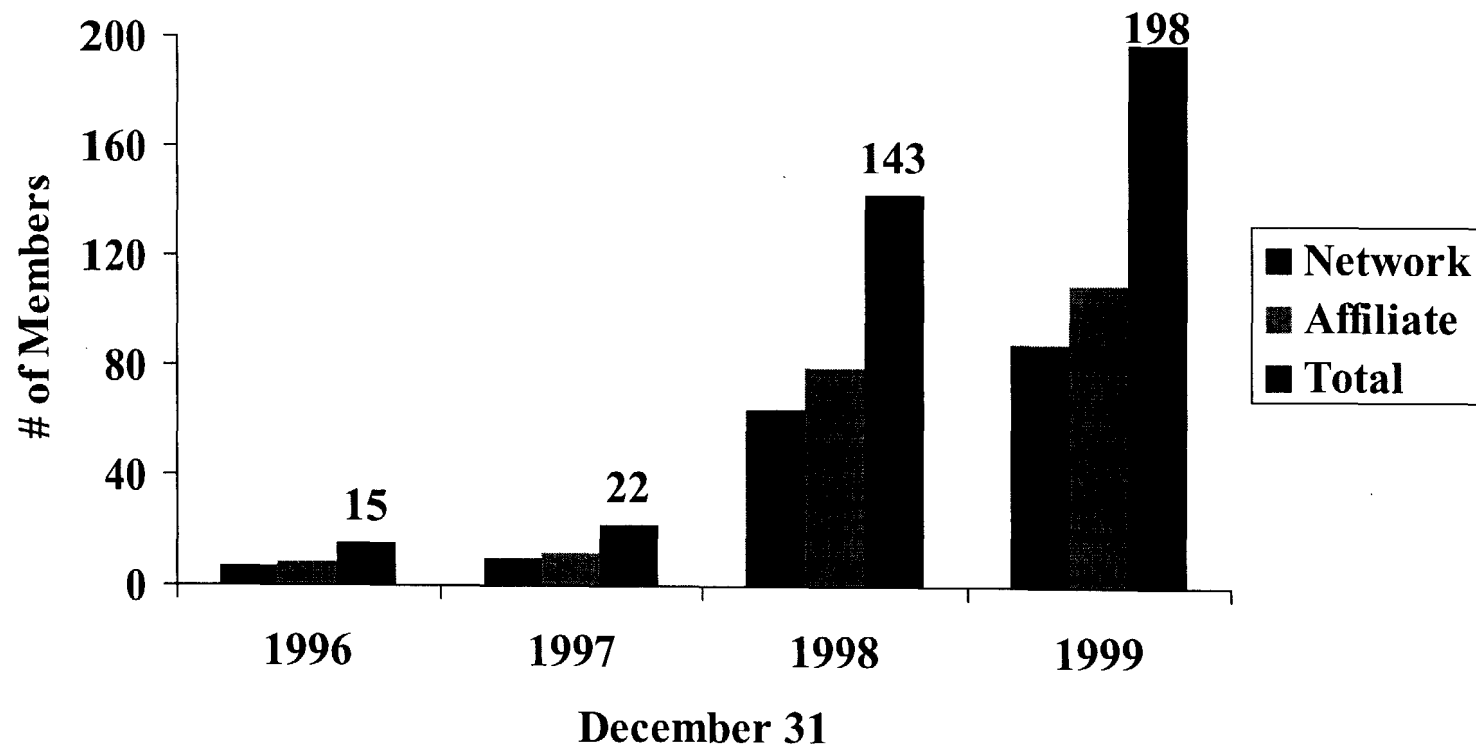


ALTS MEMBERSHIP TRENDS

1996-1999



ALTS' ANNUAL REPORT ON THE STATE OF LOCAL TELECOM COMPETITION

New Data On A New Industry Group

February 2, 2000

Overview

In this, ALTS' first Annual Report on the state of local telecom competition, we document the impressive growth in the competitive local exchange carrier (CLEC) industry since passage of the Telecommunications Act of 1996. This report demonstrates the tremendous progress made by competitors in raising capital, building new telecom networks, signing up customers, generating revenues, and creating value for shareholders. Much of this tremendous growth is the direct result of the Telecom Act and the federal and state policies to implement that Act.

The telecom industry is undergoing rapid change, but measuring the magnitude of this change can be extremely difficult. The companies involved in providing local telecom services are continually expanding their markets, rolling out new services, and acquiring more capital. The data can be difficult to assemble, and in the fast-paced telecommunications industry, traditional sources of telecom data are often a year old by the time the data is gathered and processed.

For this reason, ALTS has put together this Annual Report in order to provide as comprehensive and as timely an update of developments in the local telecom marketplace as possible. ALTS believes it is essential that policymakers, the media, consumer groups and the financial community have an accurate view of trends and growth in that market.

Some of the data here are new and are the exclusive product of ALTS' surveys of its member companies. Other information has been compiled from a variety of different sources. All sources are carefully noted.

It is our hope that this report is useful and informative. We also hope that this information will enhance the debate over how best to encourage and support implementation of the pro-competition, pro-consumer 1996 Telecommunications Act. If you have questions about how this information was obtained or collected, or if you have additional information you would like to include in future versions of this Annual Report, please let us know.

A Snapshot of the New Competitors in the Local Telecom Market

Today, there are over 375 CLECs in operation. Of these, 333 CLECs own or control and operate some of their own facilities. This means that an extremely high percentage of CLECs are investing in new, state-of-the-art infrastructure. This investment will yield broader economic benefits to the communities they serve, just as investments in new "traditional" infrastructure -- roads, bridges, airports -- yield broader economic development in the communities where they are built.

CLEC growth also means new, high-value jobs in the communities where they invest and compete. The competitive industry has grown from virtually nothing to employ about 70,000 people today. As competitors continue to deploy infrastructure and offer services, these job numbers should continue to increase.

The following two pages present two complementary snapshots of the CLEC sector of the telecommunications industry.

Graphic A summarizes the existing state of competition according to a number of essential statistics. For instance, it demonstrates that the number of CLECs has increased dramatically since passage of the 1996 Act, when there were only about 50 competitive entities.

Graphic B is a map of the United States using color codes to indicate how many CLECs are currently operating in each state in the country. Of most significance is that competitors operate in every single state in the nation. Even some of the most rural states, such as Alaska, Montana and West Virginia, have at least one competitor. Perhaps even more striking is that the "average" state already has 21 to 30 CLECs in operation. This is a strong sign that competitors intend to offer competitive service in urban, suburban and rural areas of the country.

CLEC Industry Metrics

(as of 12/31/99)

- Total CLECs: 375+
- Facilities-based CLECs: 333
- Employees: 70,000
- CLEC Access Lines: 10.4 million
- Total Access Lines in the U.S.: 185 million
- Route Miles: 161,717
- Voice Switches: 828
- Data Switches: 1,416

Sources: ALTS, New Paradigm Resources Group, Merrill Lynch

NOTES AND SOURCES:

Total CLECs: Number is derived from ALTS member roster, New Paradigm Resources Group's (NPRG) *CLEC Report 2000* and FCC's *Report on Local Competition: August 1999*, including facilities-based CLECs, local resellers and long distance carriers reporting CLEC revenues.

Facilities-based CLECs: Number is derived from ALTS member roster, Company Reports, NPRG's *CLEC Report 2000* and FCC's *Report on Local Competition: August 1999*. Number includes long distance carriers offering CLEC services, but excludes local resellers. See map for CLEC distribution by state. All other metrics in this report are derived only from facilities-based CLECs unless noted.

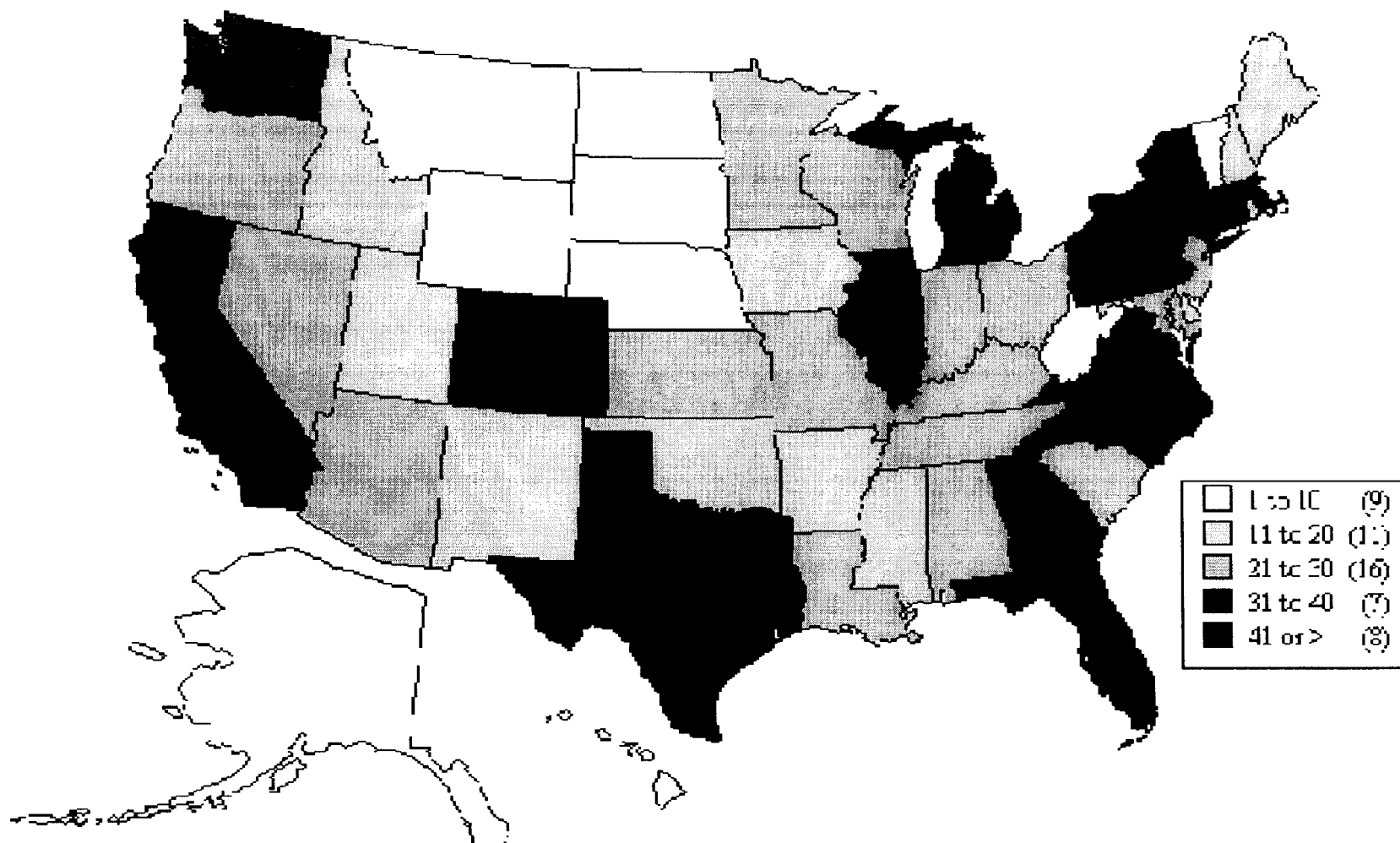
Employees: Number is derived from NPRG's estimates and company filings with the SEC. Total does not include MCI Worldcom and AT&T employees.

Total Access Lines: Number is derived from Merrill Lynch's 2Q99 estimates, accounting for line additions in the second half of 1999.

CLEC Access Lines, Route Miles, Voice and Data Switches: Numbers are all NPRG estimates.

FACILITIES-BASED CLECS BY STATE

Graphic B



Sources: ALTS, Company Reports, New Paradigm Resources Group, FCC

CLEC Capital Formation

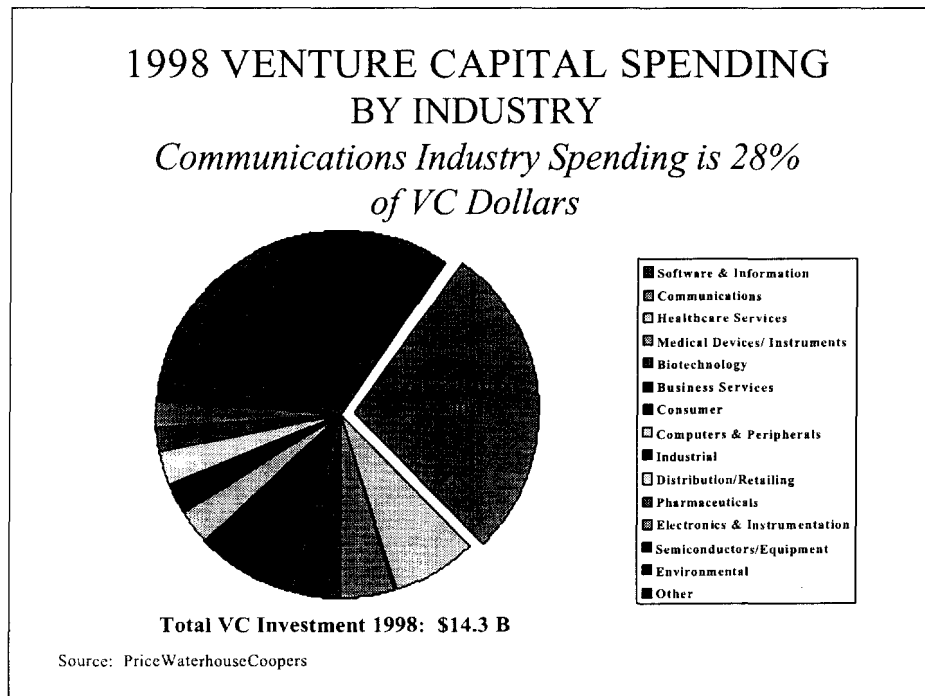
CLECs require enormous amounts of funding for a variety of reasons. They are competing in a very capital-intensive business. They are seeking to serve virtually all markets in the country -- well over 100M residences and businesses. They are going up against incumbent monopolists that start with all the customers.

The cycle of capital formation by a CLEC is an ongoing process -- from obtaining start-up capital from private investors, venture capitalists, and private lenders (including vendors), to going to the public markets for equity and debt, to acquiring additional funding from any number of public and private sources. At each stage, a CLEC must demonstrate that it has a skilled management team that can execute on a well-constructed business plan. It also needs to show that the market-opening laws will remain in place so its plan can be brought to fruition.

Graphic C shows that about 30% of all venture capital invested in the U.S. is going to fund communications. In 1998, \$3.954B out of a total of \$14.3B in venture capital financing was invested in the communications sector of the economy. For the first three quarters of 1999, the communications sector received \$6.3B out of \$21.2B.

Graphic D lists the CLECs that had initial public offerings (IPOs) in 1999. The most prominent companies coming to market had business plans based upon broadband networks and offerings. These IPOs were very successful--raising over \$1.5B -- and enabled these firms to return to the market later in 1999 to obtain further equity and debt financing.

Graphic E, which lists the private sources of funding for CLECs, may be the major CLEC financing story in 1999. Until this year, private capital (other than initial seed investments) had largely avoided investing in CLECs because the risk was too great. This year private sources invested about \$7.5B. Because these investments are only made after rigorous standards are met, this is a major vote of confidence in the CLEC industry.



NOTES AND SOURCES:

Venture Capital Investments: Data is derived from PriceWaterhouseCoopers.

Graphic D

CLEC INITIAL PUBLIC OFFERINGS 1999

<u>Company</u>	<u>Date</u>	<u>Amount (in \$M)</u>
NorthPoint Communications	5/6	\$360
Time Warner Telecom	5/12	\$252
Rhythms NetConnections	4/7	\$197
Covad Communications	1/22	\$140
Focal Communications	7/28	\$129
Network Plus	6/30	\$128
Convergent Communications	7/20	\$126
Pac-West Telecomm	11/5	\$91
Network Access Solutions	6/4	\$78
DSL.net	10/6	\$54
Log On America	4/23	<u>\$22</u>
		\$1,577

Source: ALTS

NOTES AND SOURCES:

CLEC Initial Public Offerings: The compilation of CLEC companies that had initial public offerings in 1999 was compiled by ALTS.

STRATEGIC INVESTMENTS IN CLEC SECTOR

\$7.43 Billion in 1999

<u>Date</u>	<u>Target</u>	<u>Investor</u>	<u>Amount (\$B)</u>
3/8	RCN	Hicks Muse	\$0.25
6/1	Advanced Radio Telecom	Qwest	\$0.25
7/14	Birch	KKR	\$0.11
8/4	Allegiance	Vulcan Ventures	\$0.22
8/30	McLeod*USA	Forstmann Little	\$1.00
10/4	RCN	Vulcan Ventures	\$1.65
10/7	Metromedia Fiber	Bell Atlantic	\$1.70
11/5	Teligent	Microsoft, Hicks Muse, et al	\$0.50
12/8	NEXTLINK	Forstmann Little	\$0.85
12/15	Winstar	Microsoft, Welsh Carson, CSFB, et al	<u>\$0.90</u>
			\$7.43

Source: Credit Suisse/First Boston

NOTES AND SOURCES:

Strategic Investments: Investors and numbers are derived from Credit Suisse/First Boston's January 5, 2000 research report on Telecom Services: CLECs.

CLEC Capital Expenditures on New Infrastructure

As noted in the previous section, CLECs are in a highly capital-intensive business, and they are building out new infrastructure at a rapid rate. One way to demonstrate this commitment to constructing new networks is to examine the capital expenditures of CLECs.

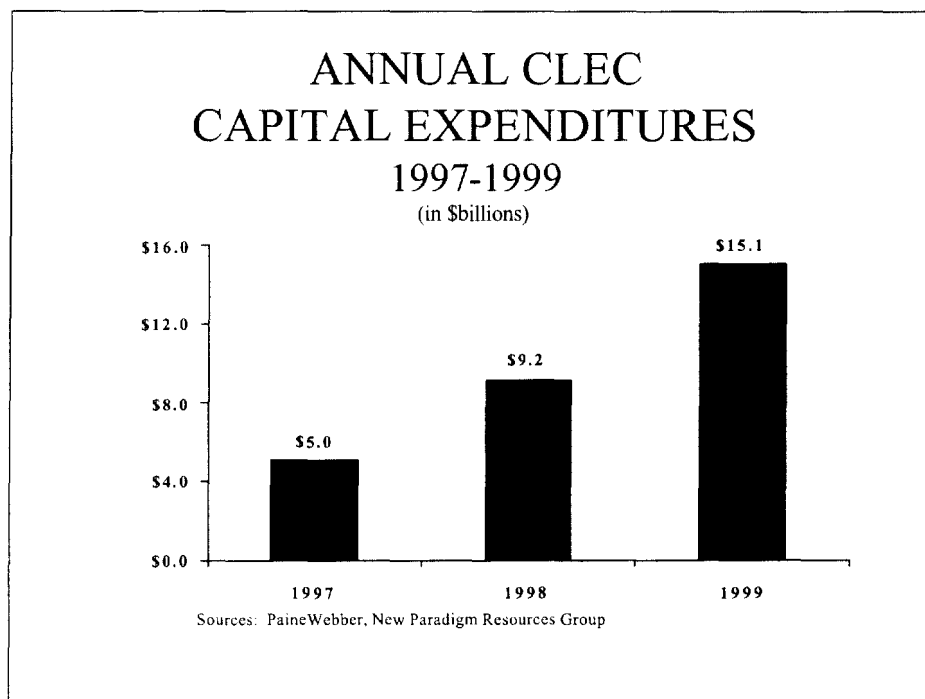
Graphic F shows the impressive growth in CLEC capital expenditures since passage of the Telecommunications Act of 1996. In the past four years, local competitors have increased their spending on new infrastructure by over 400%. In 1998, for total capital expenditures on all activities, the competitors expended about 30% of the amount of the incumbent local exchange carriers. In 1999, the CLECs' total expenditures were about 43% of the incumbents, even though the amount spent by incumbents was increasing. These expenditure amounts are especially significant given that CLECs take in only 7% of the ILECs revenues from local service. In total, since the 1996 Act, competitors have invested over \$30B on new telecom infrastructure.

Four years ago, CLECs had about 100 switches and 1 million miles of fiber. Today, competitors have over 800 switches and about 4 million miles of fiber. Intermedia Communications, for example, has 25 voice switches, 173 data switches, and 46,424 miles of fiber. Winstar, a wireless broadband competitor, has 24 voice and 106 data switches.

CLECs build infrastructure in part to create and deploy innovative services more rapidly. There are also higher gross margins associated with "on-net" services. During 1999, many ALTS member companies sought to expedite moving their traffic entirely to their own networks or at least through their own switches. ICG, for example, has over 50% of its lines "on-net" and an additional 28% "on-switch". Intermedia Communications has over 60% "on-switch", and Allegiance and Nextlink have over 80%.

Graphic G examines total capital expenditures as a percentage of total revenues for CLECs and ILECs for 1999. This indicates how much revenue is plowed back into building infrastructure. For CLECs, over 56% of total revenue is invested in new networks; for ILECs, 23.3%.

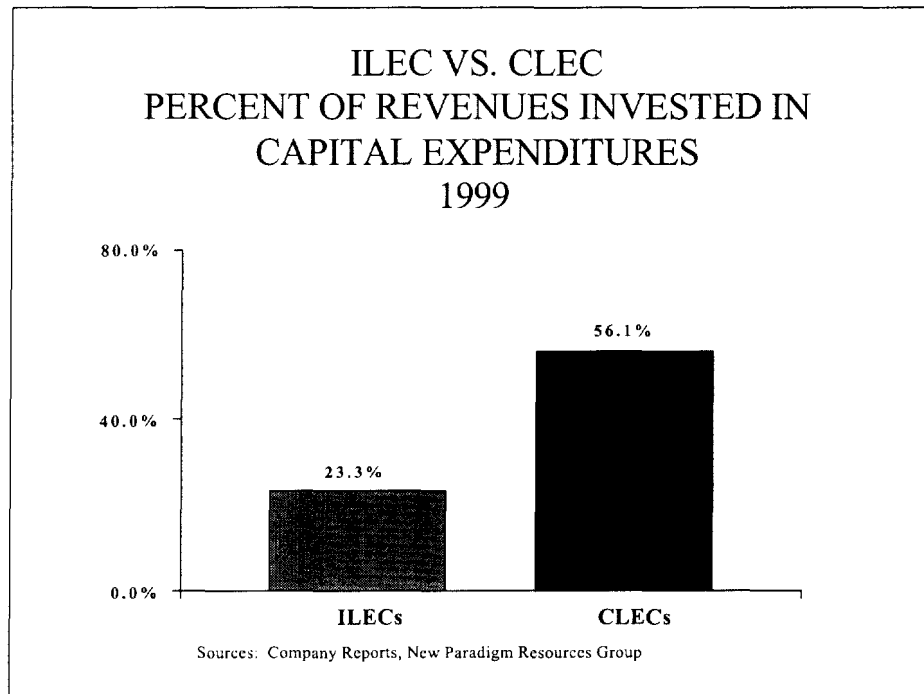
Graphic F



NOTES AND SOURCES:

Annual CLEC Capital Expenditures: 1997 and 1998 numbers are PaineWebber estimates. 1999 estimates are derived from New Paradigm Resources Group's *CLEC Report 2000*.

Graphic G



NOTES AND SOURCES:

Total Revenues/Capital Expenditures: Percentages are based on actual ILEC total revenues and capital expenditures as reported by the RBOCs and GTE and CLEC estimates derived from New Paradigm Resources Group's *CLEC Report 2000*.

CLEC Revenue and Access Line Growth

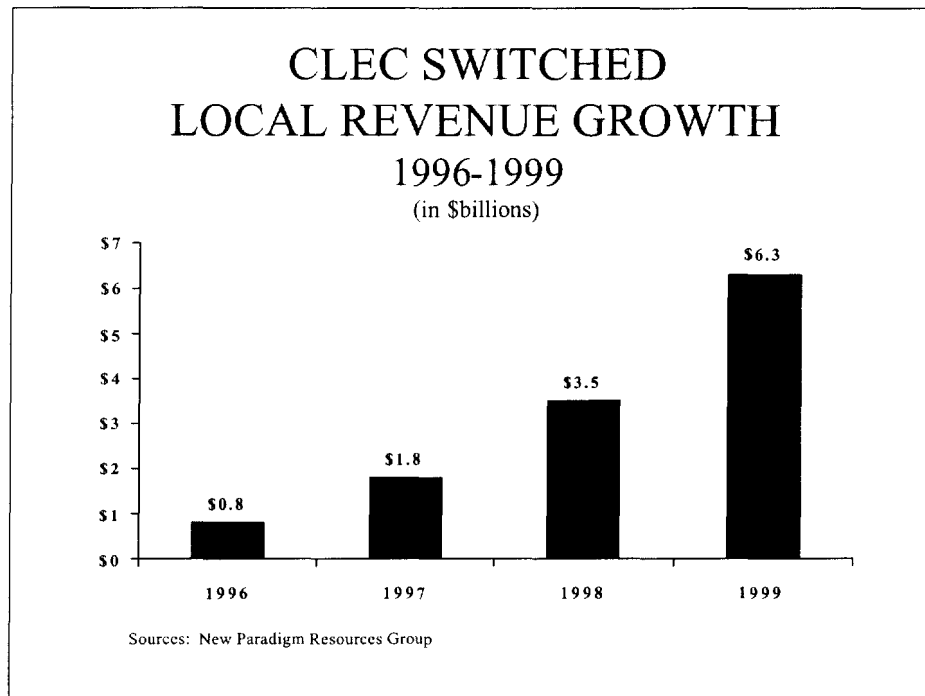
With their initial network deployments, CLECs have been able to offer a wide variety of innovative services. As a result, local revenue and access line growth has accelerated.

Graphic H shows that in 1999 CLECs had \$6.3B in local switched revenue, a sixfold increase since 1996. CLECs served about 7% of the local telecommunications market in 1999.

Graphic I combines this local switched revenue with four other sources of revenue: dedicated services, data services, long distance services, and all other activities. Dedicated revenue growth was also impressive, increasing to about \$5.6B from about \$.6B four years ago. Data revenues (both long distance and local), which are growing very rapidly throughout the industry, were over \$9.4B in 1999 (from a 1996 base of \$87M).

Graphic J shows CLEC Access Line Growth, which has also grown significantly since 1996 when the competitors had only 1M lines. By the end of 1999, this number had increased to over 10M. This number shows competitors holding a 5% share of all access lines nationwide.

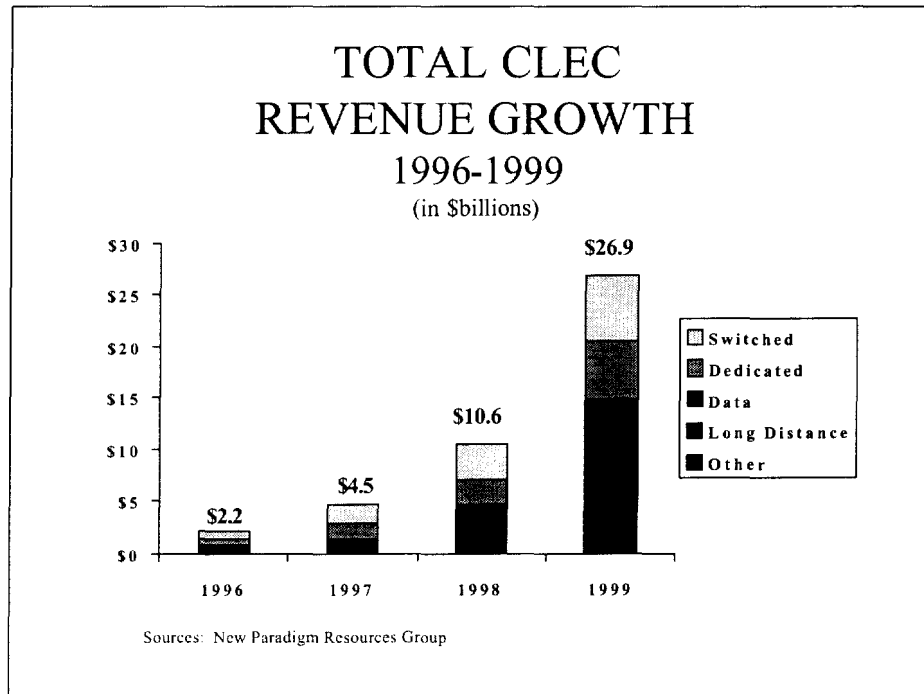
Graphic H



NOTES AND SOURCES:

CLEC Switched Local Revenues: Numbers are derived from New Paradigm Resources Group estimates reported in *1998 CLEC Report* and *CLEC Report 2000*. The revenue estimates include local resale revenues, but do not include dedicated access and private line, long distance, data or reciprocal compensation revenues.

Graphic I

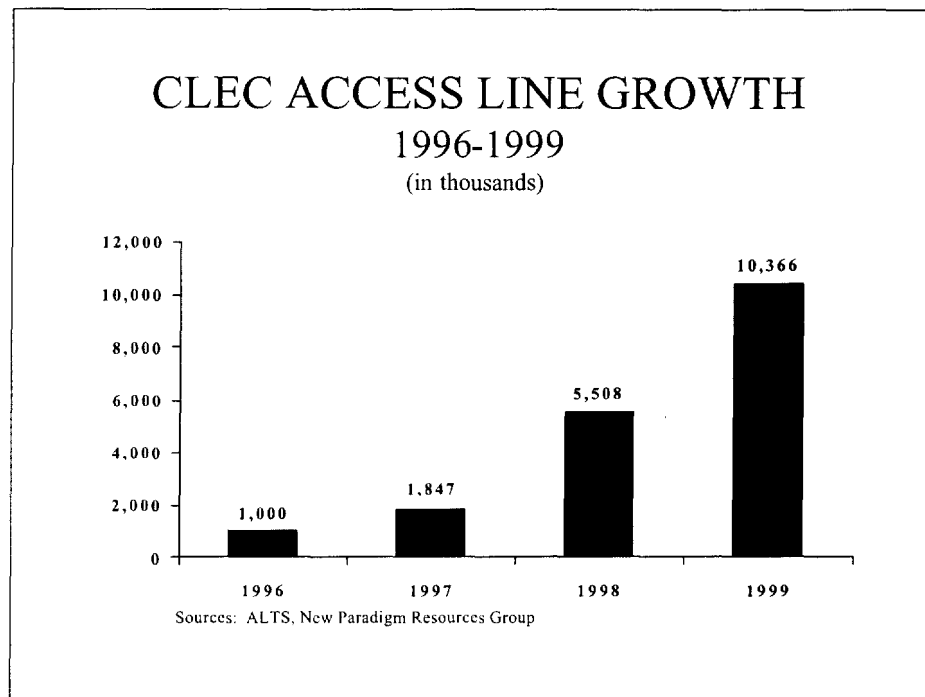


NOTES AND SOURCES:

CLEC Total Local Revenues: Numbers are derived from New Paradigm Resources Group estimates reported in *1998 CLEC Report* and *CLEC Report 2000*. The revenue estimates include switched local access, dedicated access and private line, data, local resale revenues, as well as long distance and other revenues.

	1996	1997	1998	1999
(in billions)				
Switched	\$0.782	\$1.768	\$3.546	\$6.296
Dedicated	\$0.608	\$1.301	\$2.450	\$5.667
Data	\$0.087	\$0.541	\$2.466	\$9.462
Long Distance	\$0.543	\$0.657	\$1.041	\$2.224
Other	\$0.153	\$0.268	\$1.141	\$3.205
Total	\$2.173	\$4.535	\$10.644	\$26.854

Graphic J



NOTES AND SOURCES:

CLEC Competitive Access Lines: 1997-1999 estimates are derived from New Paradigm Resources Group's *1998 CLEC Report* and *CLEC Report 2000*. ALTS estimated 1996 access lines is based on historical data.

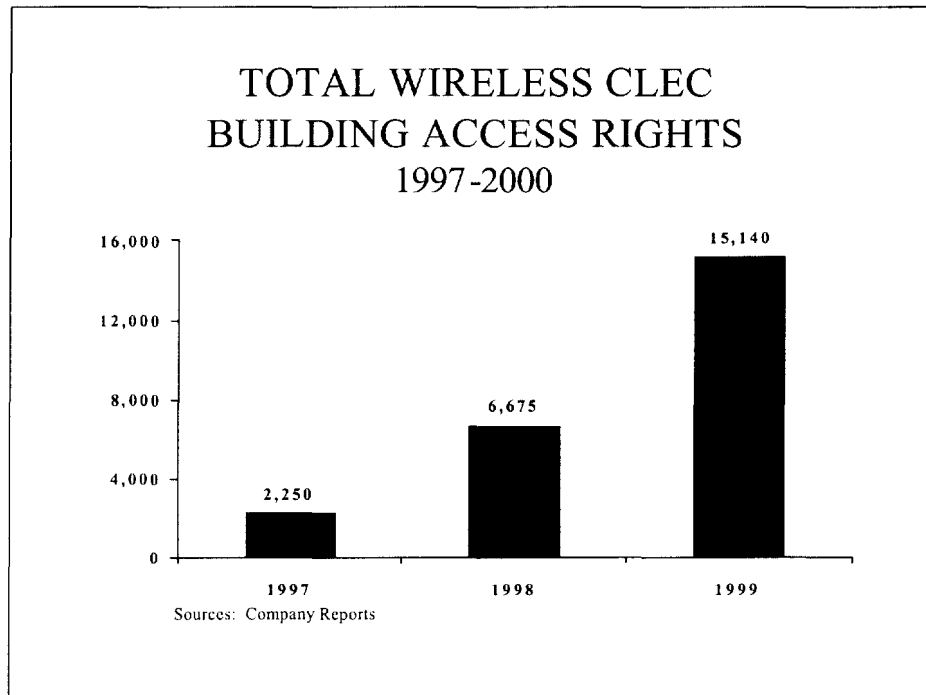
Based upon Merrill Lynch's estimate on the total number of access lines, CLEC access line market share has grown from less than 1% in 1996 to over 5% in 1999.

CLEC Access to Buildings

There are over 750,000 commercial buildings in the United States. These buildings contain most of the business customers. In addition, about 30% of residential customers live in multi-tenant buildings. Without access to these buildings, CLEC networks would be of little value because they could not connect their services to the consumers. Competitors have worked diligently to reach customers who do business at or reside in these locations. Nextlink leads the CLECs and has so far been able to connect to over 17,000 buildings -- or only about 2% of the nation's buildings. Most other wireline based CLECs connect to 5,000 or fewer buildings.

Graphic K gives the total number of buildings reached by the wireless CLECs. This group includes such companies as Winstar and Teligent. At the end of 1999, these CLECs had access rights to over 15,000 buildings -- from around 2,250 in 1997.

Graphic K



NOTES AND SOURCES:

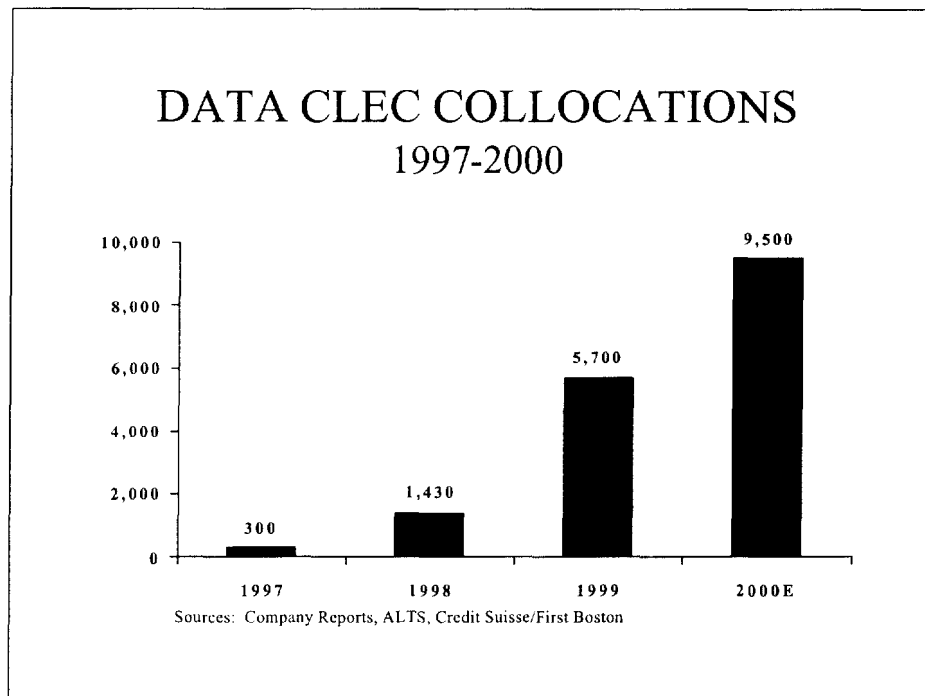
Wireless CLEC Building Access Rights: 1997-1999 estimates are based upon data collected from company reports.

DSL Deployment by Data CLECs.

One of the innovative services brought to market in the past year is Digital Subscriber Line (DSL), a group of services that provide high-speed data services over existing copper wires. The entire telecommunications industry barely offered this service a year ago. Today, competitors are leading the way in deploying DSL.

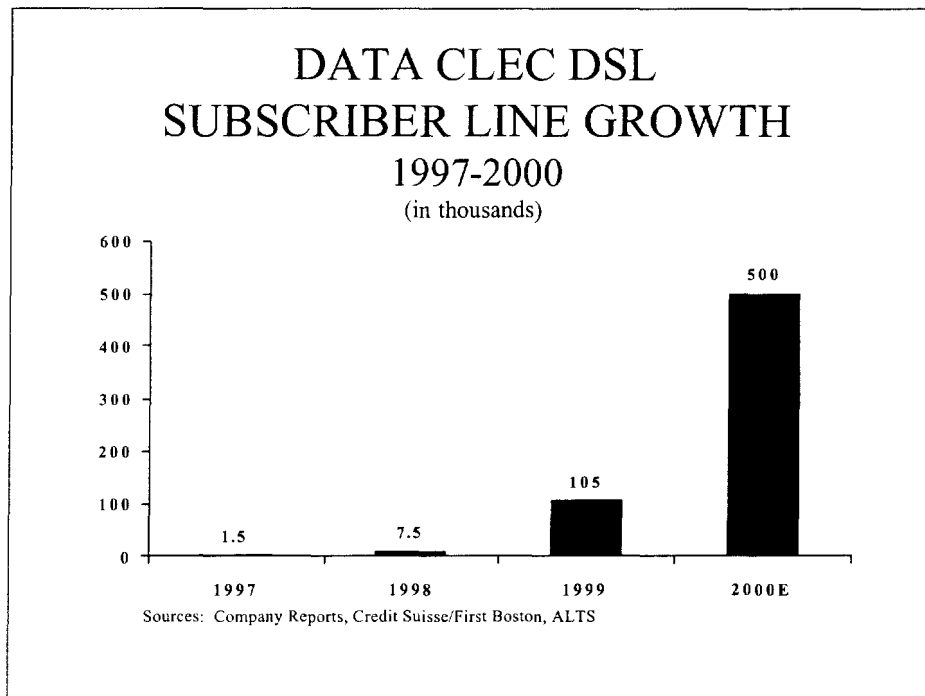
Graphic L shows growth in these networks by using, as a surrogate, CLEC collocations of data equipment. In 1998, CLECs were collocated in 1,430 end offices. In 1999, this number increased to 5,700, and, as competitors rush to roll out broadband plant, collocations should approach 10,000 in 2000. As a result, at the end of 1999, data CLECs were able to offer DSL service to about 25% of the nation, and this number is expected to increase to 40% in the coming year.

Today, there are about 500,000 DSL lines in service, and, as Graphic M shows, competitors supply over 100,000 of these DSL lines. The number of lines in service for competitors is expected to increase fivefold in 2000. Graphic N lists all of the major DSL service providers -- ILEC and CLEC. The leading provider is SBC with 169,000 lines in service. (SBC includes the assets of two other RBOCs -- Pactel and Ameritech.) USWest has 110,000. The leading CLEC is Covad with 57,000 lines, followed by Northpoint with 23,500 lines. The CLEC market share of DSL lines at the end of 1999 was about 20%.



NOTES AND SOURCES:

Data CLEC Central Office Collocations: 1997-1999 estimates are based upon data collected from company reports. ALTS' 2000 estimate is based upon company estimates and Credit Suisse/First Boston estimates.



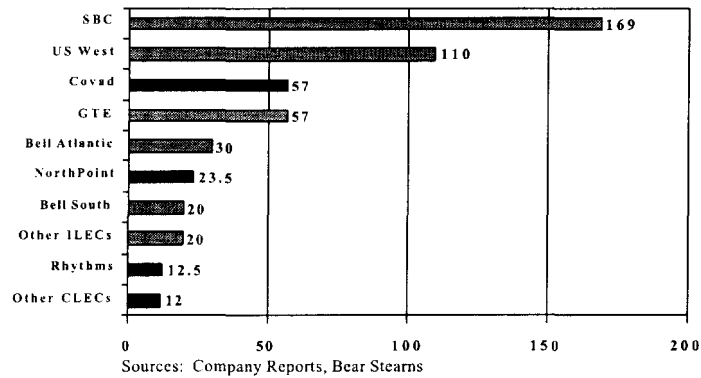
NOTES AND SOURCES:

Data CLEC DSL Subscriber Lines: 1997-1999 numbers were derived from company reports and filings.

The 2000 estimate is based on Credit Suisse/First Boston estimates for Covad Communications, Rhythms NetConnections, and NorthPoint Communications, which between them, currently have approximately 90% market share of CLEC DSL subscriber lines.

1999 DSL SUBSCRIBER LINES

(in thousands, as of 12/31/99)



ILECs & GTE = 406K (79.5%)

CLECs = 105K (20.5%)

NOTES AND SOURCES:

1999 DSL Subscriber Lines: Numbers are as of December 31, 1999, based upon company reports, except for Bell South, which is a Bear Stearns estimate.

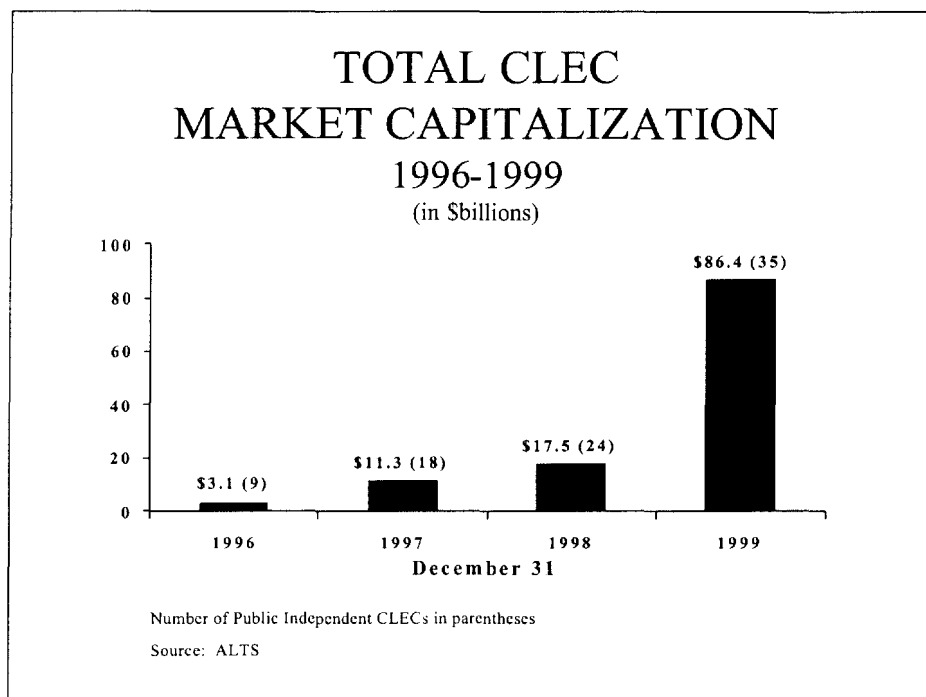
Of those companies represented on this chart, Covad Communications, NorthPoint Communications, and Rhythms NetConnections are CLECs, representing approximately 90% of the CLEC market share.

CLEC Market Capitalization

Market capitalization can fluctuate significantly depending upon external market events, as well as on company performance. It is thus a statistic that needs to be used carefully to demonstrate the health of an industry. If external economic effects can be held constant, CLECs' market capitalization can be seen as indicating that the financial markets believe that there is tremendous potential for new entrants to meet burgeoning customer demand, that CLECs have executed on their business plans, and that there are sound public policies in place to develop local competition.

Graphic O shows that since the 1996 Act, CLEC market capitalization has grown dramatically -- from about \$3.1B in 1996 to around \$85B today. CLECs have worked hard to gain the confidence of investors. They also understand that this confidence can be transitory. In 2000, they plan to redouble their efforts to execute on their plans and bring competitive choices to customers throughout the country.

Graphic P shows that no CLEC has yet to make a profit. Only four independent CLECs -- McLeod, Intermedia, ICG, and GST -- are EBITDA positive. As indicated earlier in Graphic G, CLECs continue to plow most of their revenues into building new plant. In addition, CLECs are competing against ILECs who begin with 100% of the customers. Over the next several years, we expect more CLECs to turn EBITDA positive, but showing a real profit is still some time away.

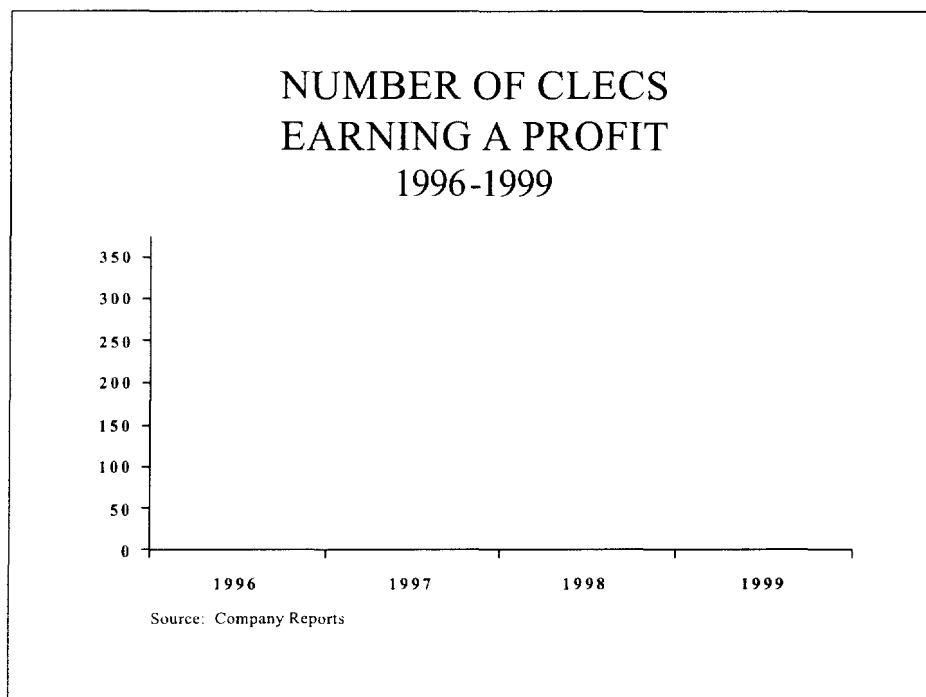


NOTES AND SOURCES:

Total CLEC Market Capitalization: These numbers were calculated independently by ALTS. The only public companies included were those that operated primarily as a CLEC and derived most of their revenues from CLEC services. For example, AT&T, MCI Worldcom, and Level 3 Communications were excluded under these stipulations.

Calculations were based on shares outstanding, as reported in SEC filings, multiplied by the December 31st share price for the respective years.

Graphic P



NOTES AND SOURCES:

CLEC Profitability: Based on company reports, no CLECs have earned any profits to date.

CERTIFICATE OF SERVICE

I, Teresa K. Gaugler, do hereby certify that on this 20th day of March, 2000, copies of the foregoing Comments of the Association for Local Telecommunications Services were served via first class mail, postage prepaid, or by hand delivery to the parties listed below.



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